

VZCZCXRO8001
PP RUEHDBU
DE RUEHTA #2932 2971312
ZNY CCCCC ZZH
P 241312Z OCT 07
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC PRIORITY 1016
INFO RUCNCIS/CIS COLLECTIVE PRIORITY 0286
RUEHAK/AMEMBASSY ANKARA PRIORITY 2108
RUEHBUL/AMEMBASSY KABUL PRIORITY 0362
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0479
RUEHRO/AMEMBASSY ROME PRIORITY 0370
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L ASTANA 002932

SIPDIS

SIPDIS

SCA/CEN FOR M. O'MARA
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

E.O. 12958: DECL: 10/23/2017

TAGS: [ECON](#) [FIND](#) [ENRG](#) [EPET](#) [EFIN](#) [KZ](#)

SUBJECT: KASHAGAN PARTIES ESTABLISH FRAMEWORK FOR CONTINUED NEGOTIATIONS

REF: ASTANA 2586

Classified By: AMBASSADOR ORDWAY FOR REASONS 1.4 (B) and (D)

¶1. (C) Agip KCO and the Government of Kazakhstan signed a memorandum of understanding on October 22 establishing the framework for continued negotiations to resolve a dispute over the exploration of the Kashagan oil field. The memorandum calls for further talks "in a spirit of positive and constructive cooperation" but is short on details. Chevron Country Manager (Chevron is not part of the Agip consortium) Zamira Kanapyanova told Poloff that she expects a compromise will now be reached by the end of the year.

¶2. (C) The Kashagan dispute began in August when the GOK expressed its dissatisfaction with the latest delays and cost overruns at Kashagan, one of the world's largest oil projects. Commercial production has been delayed from 2008 to 2010 (Comment: Even this date seems wildly optimistic) and projected costs have jumped from \$56 billion to \$136 billion over the life of the contract (reftel). In September, Prime Minister Masimov called for negotiations with Agip, to last until October 22.

¶3. (C) During the negotiations rumors have swirled in the local press that the GOK would cancel Eni's concession as a lead operator and that KazMunayGas (KMG) would have its stake in the consortium increased. Both rumors can largely be discounted. Kanapyanova told Poloff that she does not expect the lead operator will be changed, a sentiment echoed by many experts. ExxonMobil Government Relations and Public Affairs Director Patricia Graham told the Ambassador that the stakes in the consortium are likely to remain unchanged. (Note: If KMG were to increase its stake, its cost burden for the extremely expensive project would also increase.)

¶4. (C) Comment: The memorandum of understanding signed by Agip and the GOK lacks in substance but reflects a shared desire to reach a resolution. Temperatures have lowered since August, and the chances of a Kashagan shutdown for environmental reasons seem to have significantly diminished. Difficult issues remain, particularly the question of the amount of compensation due Kazakhstan for the latest delays and cost overruns, but both sides have too much to lose not to reach a compromise. End Comment.

Ordway